

Property-tax collections rising at fastest pace since US crash

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By William Selway, Bloomberg

Property-tax collections are rising at the fastest pace since the US housing market crash sent government revenue plunging, helping end an era of local budget cuts.

In cities including San Jose, California, Nashville, Tennessee, Houston and Washington, revenue from real-estate levies has set records, or is poised to.

Local governments are using the money to hire police, increase salaries and pave roads after the decline in property values and 18-month recession that ended in 2009 forced them to eliminate about 600,000 workers and pushed Detroit, Central Falls, Rhode Island, and three California cities into bankruptcy.

“The money is flowing back, but it’s not like an open spigot,” said Rob Hernandez, deputy administrator of Broward County, Florida, where property-tax revenue is set to rise 7% this fiscal year, though it remains below earlier peaks. “It’s trickling in.”

Some localities that were hit hardest in the real-estate collapse, such as Clark County, Nevada, haven’t yet rebounded but forecast improvement in the next fiscal year.

Property-tax collections nationally rose to US\$182.8 billion (RM589.9 billion) during the last three months of 2013, when much of the money is due, according to a US Census estimate last month. That topped the previous peak four years earlier, before the decline in housing values reduced revenue.

That increase helped boost collections for the year by 3% over 2012. That was the biggest gain since 2009, when revenue climbed 9%.

Bond Improvement

“With cities having increased real-estate tax collections, it will really improve their bottom lines,” said Brooks Rainwater, a director of research for the National League of Cities in Washington.

The financial recovery is easing the risk of credit-rating cuts for local governments, which could increase prices by pushing down yields as a result of less risk.

Bonds from local government issuers have gained 5.34% this year through April 16, 2014, outpacing the broad market's 4.86 percent advance, Bank of America Merrill Lynch data show. It would be the first time since 2008 that debt from cities, counties and townships have outpaced all securities in the US\$3.7 trillion market.

Property taxes have taken longer to rebound than other types of levies, prolonging the effects of the 18-month recession that ended in 2009. It can take more than a year for tax bills to catch up with changes in home values. Some state laws limit annual property-tax increases.

Library Money

In Nashville and Davidson County, Tennessee, property tax revenue rose 13% in the 2013 budget year compared with 2012. With revenue hitting US\$891 million, the government rebuilt fire stations and started work on a police station.

In Houston, where property tax collections are up more than US\$100 million from the 2011 low, the city is putting more into its libraries and parks and has begun adding to its workforce.

"We're clearly headed in the right direction," said Houston Controller Ronald Green.

In Washington, property-tax collections in the year that ended in September rose about 5% from the year before to US\$1.9 billion. The city is spending more on schools and affordable housing.

Health Costs

San Jose, in the heart of Silicon Valley, is using the extra cash mostly to cover rising costs for employee health care and pensions. Property-tax collections are set to rise 8.1% for the year ending in June 2014 to about US\$222 million, above the previous peak of \$210 million in 2009.

"We were able to stop the bleeding," said San Jose mayor Chuck Reed. "The real-estate market will help us not have to cut services, but it is not strong enough to give us enough revenues to overcome these increasing costs."

Local governments remain hesitant to hire after cutting jobs from mid-2008 through March 2013, according to the US Labor Department. Since then, local governments, which employ about 14 million people, have added 57,000 workers.

“Property values are rebounding to a degree and fairly robustly in some locations, but the effect of that on the fiscal circumstances in many cities is not as salutary as we would like,” said Steven Kreisberg, the director of collective bargaining for the American Federation of State, County and Municipal Employees, which represents more than 1.6 million government workers and retirees.

Since March 2013, property values have risen by more than 10% each month from a year before, according the S&P/Case-Shiller index of property values in 20 US cities.

Nevada’s Clark County has a backlog of projects awaiting funding, said commissioner Steve Sisolak. The county’s property-tax collections during the year beginning in July are forecast to rise for the first time since 2009, though gains will be limited by state caps on how much they can increase.

“The county’s turning a corner,” Sisolak said. “You fall off a cliff fairly quickly, and it takes you a while to climb back out.”

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